

EASTMAN KODAK COMPANY

APPARATUS AND OPTICAL DIVISION

400 PLYMOUTH AVE. N.

ROCHESTER 4, N. Y.

CHAL-0303
COPY 1 OF 2

August 15, 1958

Mr. Richard Bissell
Central Intelligence Agency
Washington 25, D. C.

Dear Sir:

Under [] Eastman Kodak Company has designed, constructed and delivered one complement of Minicard equipment. Concurrently, under your Contract EQ-1806, we have been designing and making, and have now partially delivered, Minicard machines which will comprise two installations.

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The [] contract was begun on a CPFF basis but was later changed to a "cost-sharing basis" wherein the [] established a funding limit which it could not exceed. The difference (now borne by Kodak) between the actual cost and the limit thus imposed by [] is considerable, even though the ceiling established was more than three times the original estimate.

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Under Contract EQ-1806 the program undertaken for you was formalized into a fixed price contract essentially because of security sensitivity of other associated parts of your program. Just as in the case of the [] equipment, our costs in producing your two sets of Minicard equipment (to date and anticipated) will total approximately three times the original estimated cost. The large increase in total cost of the [] and your machines was brought about by changes which were found desirable in machine system concept and machine function. As the machines progressed through their various phases, refinements and sophisticated additions were made to effect improved flexibility and performance. Fortunately, the Minicard equipment is immeasurably better because of these refinements.

During this period of machine evolution some changes were made to the complement of machines because of technical systems requirements, and these changes have been translated into the addition of some machines to your sets that are not called out in our contract. These instruments have nonetheless been manufactured and added to each set of equipment because they were essential to the successful operation of each Minicard System.

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As you are aware, during the extended period of our program, wages, burden rates and material costs have all risen. These elements of cost, as well as the increases in the basic cost of manufactured equipment which were due to machine sophistications, could not be reflected in the estimates of cost which were used as a basis for the fixed price contract.

The machines which we are supplying to you fall into two categories, those which are similar to the machines delivered to [] and those which are peculiar to your program. For those machines in the first category it had been generally understood that the engineering cost would be borne by []. However, the cost of engineering the special machines for your program would be borne by you. In succeeding paragraphs we should like to elaborate somewhat upon these two categories of equipment.

After [] funding limit on their contract with us was reached, Kodak assumed the responsibility for completing the engineering work as well as the manufacture. The funds were exhausted during calendar year 1957, and from that time to the present we have not only continued our engineering work but have continued to incorporate improvements on your machines prior to their delivery to you.

Practically all of the changes which we have made would normally have been performed under an engineering program wherein the costs for the engineering as well as the costs for machine modifications would have been covered by changes in scope in a contract with agreement of both parties. We believe that our actions in this instance have been taken in good faith and have been directed toward supplying you with more efficient and reliable sets of Minicard equipment, consistent with our advances in the state of the art. We have kept your technical people advised of the changes we have made and have had their concurrence that the improvements resulting from the changes were both desirable and necessary.

Although we might list all of the changes made to the machines both in concept and manufacture and describe in detail how they differ from the machines as they were conceived at the time of contract negotiations, we believe that such a list would not at this time enhance the information being presented. Should you desire a list of the changes we have made to machines, we would be pleased to assemble one for your analysis.

As you may have been aware from your technical people, we have had the balance of equipment, with the exception of two Sorters, ready to ship to your installations. We have been asked to delay shipment until your machine areas could be readied to receive the equipment.

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We have cited the two Sorters primarily because even though they had allegedly been ready to ship we had decided to delay shipment on them in order to make some engineering improvements. The engineering improvements originated as a result of our experience in setting up the first installation for [redacted]. In the process of running the machines in [redacted] system we had uncovered certain limitations in the Sorter which, although readily correctable, required what in our opinion was an excessive amount of time. We have instituted the various changes in [redacted] Minicard Sorter and have begun to revise your two machines in the same manner. That program is in process now and should be completed in the near future, either coincident with or prior to the completion of machine area preparation.

The same general approach to machine reliability improvement has been used consistently. Each time we have determined the need for a desirable change on [redacted] equipment we have instituted the change on your equipment.

In the case of one of your installations certain new and special machines were required. Although some provision had been made for the special engineering required for these machines under a concomitant CPFF contract, the funds which were available to that effort were inadequate to support the magnitude of the task which had to be performed for these new machines. Because of the demands which were made on these funds by other development activities required by your program it became impossible to draw on them for the special Minicard machines. This situation resulted in our extensive use of funds in the "fixed price" contract to do the development work which was to have been supported by the CPFF contract. Contract EQ-1806 has, therefore, absorbed more than just the cost for machine reproduction. It has absorbed costs accrued in the development of these special machines.

In both your contract and [redacted] contract the scope and machine descriptions were exceedingly broad. Because [redacted] contract was CPFF they had continuous flexibility in increasing their reimbursement to us, a flexibility which you normally would not have under your "fixed price" contract unless we jointly declare a change in scope.

As an indication of the predicted successful system operation of the refined machines which resulted from our engineering improvements [redacted] last year placed an order with us for four additional complements of equipment. Evidence supporting the fact that these machines are more elaborate and expensive than those contemplated at the time of entry into your contract is given by the attached figures which recite the present estimated costs of the new machines. When all new engineering costs are divorced from present estimated cost figures, even the reproductive costs of the machines themselves are twice as great as the original estimated cost.

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In the case of your contract there are other costs which have exceeded those which would be anticipated in an original reasonable estimate. As mentioned earlier, we have already made partial delivery on your two sets of equipment, have installed machines, provided operating supplies, and have trained some of your personnel in operating techniques. We have prepared drawings, sketches, and instruction sheets; undertaken systems analyses for your two installations; prepared procedural instructions for information processing and material flow; and to date have provided maintenance whenever required. Certainly, no allowances were made in our original estimate for progressive installation or for the added services and supplies furnished. We have also carried out continued tests on your delivered, and to be delivered, machines and are further modifying your machines as a result of usage tests.

We would appreciate your careful consideration of this overall situation. We probably would be willing to "cost share" to a degree in the construction of your two sets of equipment. However, we feel that we are entitled to ask you to consider the fairness of reimbursing us at least to the extent of the present estimated reproductive costs and the special personnel services supplied to the two installations. We would be agreeable, of course, to have an accounting group of your choosing review the financial data with our people.

Yours very truly,

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Director
Research and Development

June 15, 1960

Dear Dick:

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As requested by you, I have undertaken a review of the transaction relating to the supply of the information, storage and retrieval systems by [] organization.

At its inception, the original requirement provided for a camera, a sorter, a duplicator and a selector for the system. Originally, two types of camera were under consideration: one already designed for an earlier system, and a second of somewhat more complicated design and function. It is my recollection that the second camera was abandoned at an early date. On the sorter, the principal design feature was that it would handle a 10 x 10 assembly of stacks in order to facilitate rapid sorting operations. The duplicator, as originally conceived, was to be a rather simple machine for use principally as the means for providing duplicate copies of the filed information to be sent to other organizations, or to be used internally to take care of heavy demands. Lastly, the selector was based upon a relatively simple computer logic, which was thought at the time to be sufficient to meet established or foreseeable needs.

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I have now had an opportunity to visit an installation in Virginia with [] and to visit the two installations in Washington which are of interest to you. It now appears that several major differences exist between the equipment supplied and that originally contemplated in the agreement with []. In the first place, the sorter does not come up to expectation in that it handles only a 10 x 1 assembly of stacks. As a consequence, many more human operations will be involved and a much slower sorting rate will result. Against this deficiency, two factors must be considered: the greater usefulness of the information stored and the greater number of file duplicates required. The latter is reflected in a duplicator design far more complex than originally contemplated and far more effective in fulfilling the new requirements which have evolved in the course of time.

The new modes of operation introduced in this equipment have unquestionably added considerably to the cost--particularly, as they introduce complex electronics. In turn, the selector electronics, in my opinion, have been made much more complex by the factor of greater usefulness of the information being handled. This was brought

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out in my discussion with the people engaged in checking out the machine when we ran through the capabilities of the selector logic. If my recollection does not fail me, these capabilities are at least a factor of 2 greater than originally contemplated.

It is difficult for me to place a dollar value on the difference between what was originally bought and what was actually delivered. The deficiencies in the sorter, at least to some extent, must offset the added capabilities of the duplicator and selector. With respect to the latter two pieces of equipment, I can only say, from my experience in my present Company, that changes in the electronics of equipment of this type are invariably expensive, and always far



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I hope that the above may be of some assistance to you in the resolution of this situation.

Sincerely,

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